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SUBJECT: ECUADOR ECON WEEKLY: ECUADOR TO PAY OXY VAT AWARD; GOE
SIGNS THREE MARGINAL OIL CONTRACTS; "ITT" TOUR

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Ecuador Announces Publicly It Will Pay OXY

¶2. (U) On March 12 the Ecuadorian media reported that Ecuador had lost its final appeal in an international arbitration case, which had ruled that the GOE needs to rebate valued-added taxes paid by Occidental Petroleum Corporation (Oxy). While the House of Lords had rejected Ecuador's final appeal in November, this was the first time the ruling (and the GOE's commitment to pay) has been made public. Minister of Economy and Finances Fausto Ortiz confirmed publicly that the GOE will pay the arbitral award, although subject to discussions and negotiations with Oxy.

GOE Signs Three Oil Contracts

¶3. (U) On March 12, the GOE signed oil contracts for three marginal fields, the first petroleum concession contracts signed in nine years. The marginal fields are small (less than 1% of total production), contain low quality or heavy crude, and can require expensive extraction techniques. The contracts establish that the percentage of state participation will increase as the international price of oil increases. The contracts are for 20 years, and production is scheduled to start in April. Two fields will be operated by the Amazonian Oil Partnership (Ecuadorian company Dygoil and the Venezuelan companies Proinci, NCT Energy, NCT Estudios y Proyectos, and Suelopetrol), with an estimated investment of \$55 million. The Pegaso Oil Partnership (Colombian company Ismocol and U.S. company Pecs Iecontsa) will operate the third field, with an estimated \$53 million investment.

¶4. (U) The GOE continues to negotiate new contracts with the large foreign oil companies that have production sharing concessions, which will be reported septel.

Former Foreign Minister Embarks on "ITT" Tour

¶5. (U) Following on President Correa's extension of the deadline for his "Keeping the Oil in the Ground" proposal (in January he further postponed commercial development of the Ishipungo Tambococha Tiputini -ITT field in Yasuni National Park until October, instead of June), ex-Foreign Minister Francisco Carrion this week embarked upon a tour to Europe this week to market the benefits of the GOE's plan to trade debt in exchange for not drilling for oil.

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